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SUBJECT: INTERAGENCY COOPERATION ON TRI-BORDER AREA

Classified By: Ambassador James C. Cason; reasons
1.4 (b) and (d).

SUMMARY

¶1. (C) Embassy Asuncion hosted August 8-9 a conference on Tri-Border Area (TBA) terrorist finance and money laundering. Forty USG participants from Paraguay, Brazil, Argentina, Chile and Uruguay represented the departments of State, Defense, Justice, Homeland Security and Treasury, as well as the DEA and the FBI. Ambassador Cason challenged participants to separate the hype about the TBA from concrete facts -- to specify what illicit activities are underway there, to identify the actors at work, to find gaps in our information and intelligence, and to look for ways the interagency community could work together to better fight terrorism, money laundering and other illegal activities. The conference confirmed the TBA is a hotbed of illicit activities including trafficking in drugs, arms, and counterfeit goods, as well as document fraud and money laundering. Keynote speakers noted that a modified Hawala system is commonly used in the TBA to launder money, and highlighted successes prosecutors have had going after exchange houses for transmitting money without a license. While five extended families in the TBA appear to be the major actors in drug and large scale crimes, Embassy Asuncion believes that the clear majority of the adult working population of the Lebanese community (of 40,000 persons total) in the TBA may be involved in illicit activity. Hizbollah has a small direct, non-operational presence on the ground, but most Lebanese in the TBA are Hizbollah sympathizers, if not financial supporters.

¶2. (C) SUMMARY CONTINUED: Participants also confirmed gaps in our knowledge regarding the amount of money transmitted, its destination, and the identity of the facilitators. Via two days of intensive inter-agency cooperation, participants identified several initiatives the USG should take to improve its efforts in the TBA: form a virtual working group on TBA issues that periodically reconvenes in person; improve inter-agency communication and resource sharing; expand the 3 1 dialogue to encourage Brazil, Argentina and Paraguay to share data on a range of customs, financial, narcotics and weapons crimes; continue to tighten borders; monitor

Venezuelan and Iranian activities in the TBA; and, ensure that officials at post focus on evidence prosecutors need to make criminal cases. Many conference participants commented that this conference was their first in depth opportunity to discuss TBA issues and cooperation with other USG agencies in the region. Given the scale and complexity of illegal activity in the TBA, the USG will need to continue to improve inter-agency cooperation in order to achieve ever-more significant results. END SUMMARY.

CONFERENCE CHALLENGES

13. (C) Embassy Asuncion hosted August 8-9 a conference on the Tri-Border Area (TBA) which focused on terrorist financing and money laundering. Forty USG participants from Paraguay, Brazil, Argentina, Chile and Uruguay represented the departments of State, Defense, Justice, Homeland Security and Treasury, as well as the DEA and the FBI. Guest speakers included Mark Maldonado of DOJ's counterterrorism section, Santiago Luna of Immigration and Customs Enforcement (ICE), Adam Kaufmann of the Manhattan District Attorney's office, Kevin Puvalowski of the U.S. Attorney's office in New York City, Jose Soto and Dave Hulsey from the U.S. Special Operations Command (SOCOM), and David Hathaway from DEA in Asuncion. The Embassy's Resident Legal Advisor (RLA) Kevin Sundwall organized the conference with State and Treasury (OTA) support.

14. (C) At the conference's inception, Ambassador Cason tasked participants to separate the hype about the TBA from concrete facts -- to specify what illicit activities are underway there, to identify the principal actors at work, to find gaps in our information, and to look for ways the interagency community could work together to better fight terrorism, money laundering and other illicit activities.

WHAT IS REALLY GOING ON IN THE TRI-BORDER AREA?

15. (C) The conference confirmed the TBA is a sanctuary for illicit activities including trafficking in drugs, arms, and counterfeit goods, as well as document fraud and money laundering. The average drug shipment of seven kilos of cocaine moves from Paraguay to the Middle East, where profits can reach up to 60 times cost (a shipment valued at USD 2,000 in Paraguay could be priced at USD 120,000 in Israel). Paraguay's side of the TBA has become a hub for arms and paramilitary sales, with guns moving among China, Bolivia, Brazil, Uruguay, Chile and Colombia's FARC. Trade in counterfeit goods largely involves high-end electronics and counterfeit intellectual property goods from Japan, Hong Kong and Singapore. The numbers round out the picture: 80 percent of Paraguay's GDP (officially less than USD 8 billion total) comes from illicit activity. A recent FinCen analysis reported that upwards of USD 100 million leaves Paraguay every month never to return. Speaker David Hathaway told conference invitees that on a recent visit to Ciudad del Este, he witnessed workers loading two planes in one day with cash (three armored vehicles containing cash were loaded onto each plane). While large amounts of cash are flowing out of Paraguay, almost no money enters. U.S. Immigration and Customs Enforcement estimates that USD 20 million left Paraguay for the United States on a daily basis in 2006, but less than USD one million was reported as coming in. Over a six year period, Cash and Monetary Instrument Reports (the customs forms which require persons entering the United States to declare cash of USD 10,000 or more) showed USD 2.4 billion flowing out of Paraguay into the United States, but only USD 56,000 leaving the United States for Paraguay. In Paraguay's small, agriculture-based economy, with a per capita income of only USD 1,553, there is little explanation for this type of "nothing in, all out" cash flow.

16. (C) The conference's keynote speakers, Adam Kaufmann, Kevin Puvalowski, and Mark Maldonado, informed participants

that a modified Hawala system is commonly used in the TBA to launder money. The scheme works as follows: a customer goes to a local (usually unlicensed) exchange house in Paraguay or Brazil and asks to have money deposited into a Swiss or Grand Cayman's bank account. The exchange house, which has an account in a U.S. bank, sends (most commonly) a fax directing the U.S. bank to make the transfer to the Swiss account. Using this scheme, the only transaction that appears in the financial system is the transfer from the United States to Switzerland. In some cases, the money also passes through Uruguay on its way to the United States. Money laundering schemes in the TBA may also rely on double or false invoicing.

17. (SBU) Keynote speakers highlighted successes prosecuting exchange houses for transmitting money without a license. New York prosecutors have actively pursued money laundering cases because most money laundering schemes require dollars, and often touch New York City as the world's financial capital at some point in the laundering process. Long-time New York District Attorney Robert Morgenthau has taken a personal interest in these prosecutions, frequently raising the profile of the issue by citing the statistic that USD 1.4 trillion (one-eighth of the total U.S. economy) is now on deposit in the Cayman Islands. In the Merchants Bank/Valley National Bank case, USD 3.7 billion was moved from the TBA through the United States in five years via sixteen foreign exchange houses and 50 defendants. In the end, prosecutors seized USD 20 million (NOTE: Brazil got one-third of the proceeds, which provided incentive for its cooperation. END NOTE). Another high profile TBA case involved Beacon Hill, a New York financial service provider, which moved USD 13 billion in six years through 40 different JP Morgan/Chase bank accounts. Prosecutors successfully charged Beacon Hill as an unlicensed money transmitter; JP Morgan/Chase paid a hefty fine.

WHO ARE THE ACTORS?

18. (C) Five extended families (Barakat, Zeiter, Jamil-Georges, Baalbaki and Hijazi) in the TBA appear to be the major actors in drugs and other large-scale crimes, but the Embassy believes that the clear majority of the adult working population of the Lebanese community (of 40,000 persons total) in the TBA may be involved in some type of illicit activity (e.g., counterfeit goods). Most of the persons engaged in illegal activity live on the Brazilian side of the border and cross into Paraguay to work on a daily basis. Because false identification documents are easy to obtain, many foreigners have false Paraguayan citizenship. Others marry Paraguayan wives (even if only on paper) in order to gain legal status. Illegal trade and illicit activity is facilitated by the high (approximately 50 percent) tariffs for commodities on the Brazilian side of the TBA.

19. (C) While Hizbollah may have a small non-operational presence on the ground, most Lebanese in the TBA are Hizbollah sympathizers or financial supporters. Shi'a mosques predominate, but a few Sunni mosques are scattered in the region. Although many Shi'a may not be aware of the activities they are supporting, hats are frequently passed around at mosques along with the suggestion that the community has a duty to support Hizbollah. The USG designated Assad Ahmad Barakat as a Specially Designated Global Terrorist (SDGT) in 2004 (sentenced in Paraguayan courts in May 2004 to six years in prison for tax evasion), as well as fugitive Fahd Jamil Georges as a Specially Designated Narcotics Trafficker (SDNT) kingpin in 2006. In December 2006, the USG designated nine relatives and associates of Barakat (including Muhummad Yusif Abdallah, Hamzi Ahmad Barakat, Hatim Ahmad Barakat, Muhammad Fayez Baraket, and Saleh Mahmoud Fayad), and two entities -- Casa Hamze and the Galeria Page shopping center. Participants also noted that Venezuelan and Iranian influence in the region is expanding. Iran recently opened an embassy in Chile; Paraguay has

rejected Iran's overtures to date. There is abundant recent, but not contemporaneous evidence of FARC connections to the TBA. To date, there is no known information currently linking Al Qaeda to the Tri-Border Area.

WHAT DON'T WE KNOW?

¶10. (C) While we know massive sums of money are leaving Paraguay, the USG does not have any reliable information regarding the total amount of money moved or the extent of profits involved. We also lack hard data on the ultimate destination of the money. Most officials believe it passes through New York banking institutions, but it is unclear just how much of it ends up in the Middle East, or some other destination, such as Africa. While some are known, a number of persons facilitating the money in the TBA are unknown. Clearly, however, significant flows are headed directly to Lebanon. Better information from Lebanon is needed before determining how much ends up in the hands of Hamas or Hizbollah. Sophisticated criminal networks (which often commingle commercial and criminal proceeds) and layers upon layers of banking institutions used to launder illicit business proceeds make it difficult to find the hard evidence. But one thing is clear: we do not need to know the totality of all that transpires in the TBA before we can act against many of the main targets that currently operate with near-impunity.

CONFERENCE LESSONS LEARNED

¶11. (C) Via two days of intensive inter-agency cooperation, participants identified several "lessons learned," or initiatives the USG should undertake to improve our efforts in the TBA.

--Form a virtual working group on TBA issues that periodically reconvenes in person.

--Improve inter-agency communication and information sharing. USG representatives can tap ICE's Data Analysis and Research for Trade Transparency System (DARTS), which checks and compares trade data between countries by searching for data on specific business sectors, businesses or trade discrepancies of certain amounts. Another resource is DEA's telephone intercept capabilities in Paraguay as part of Operation Cerberus, which could be utilized to further a specific prosecution.

--Expand 3 1 dialogue to encourage Brazil, Argentina and Paraguay to share customs data. The GOP collects customs forms from travelers entering the country yet discards the forms instead of inputting the information into a database. Conference participants discussed the possibility of inviting U.S. customs to do a presentation on DARTS at December's 3 1 conference to be held in Asuncion.

--Focus efforts on money laundering, customs violations, tax fraud, and/or drug smuggling as a means to prosecute the criminals in the tri-border countries. Most participants agreed the "Al Capone" approach to prosecutions is best. A solid criminal procedural code is critical to this approach, such as the one soon to be presented to the Paraguayan congress. Pursuing alleged terrorist financiers has had little success and has limited the cooperation and buy-in of the other countries. But all will readily prosecute the same felons for narcotics or tax violations.

--Continue programs to work to tighten borders and to make it more difficult for criminals to get illegal identity and other documents. One Embassy Asuncion representative noted that 20 percent of cars in Paraguay do not have license plates; another 20 percent have fake plates, which makes tracing cars difficult.

--Monitor Venezuelan and Iranian activities in the tri-border area.

--Ensure law enforcement officials at post determine early on in the investigation what evidence prosecutors will need to make a criminal case. For money laundering cases, prosecutors will need a witness to testify that the money is the product of criminal conduct. Conference speakers suggested that the inter-agency shift its focus from intelligence (which is often not admissible in court) to direct evidence from witnesses able to testify.

--Be familiar with all U.S. statutes which can be used for prosecutions, many of which permit prosecutions for extra-territorial violations of U.S. law. Stand ready to use asset forfeiture laws, for which the standard is probable cause to seize and a preponderance of the evidence to forfeit, to place pressure on criminal organizations.

--Also recognize when disruption of criminal activities, as opposed to full criminal prosecution, is a useful tool, both for crime prevention and for lead development for future prosecutions.

---Work with companies operating in the TBA such as Microsoft, Sony, and British American Tobacco, to share trade and financial information. Embassy Asuncion is considering undertaking a street-by-street study in Ciudad del Este in an attempt to isolate legitimate from illegitimate commerce crossing the border.

--Improve inter-agency communication on designating terrorist organizations under OFAC. While conference participants recognized that designations -- "naming and shaming"-- can be a useful tool, most viewed it as a remedy of last resort. Many worried about the impact of designations on existing investigations or operations.

--Rely on multilateral organizations to exert pressure on countries that need to improve their legal framework. One participant noted that the Financial Action Task Force (FATF) is currently being used to pressure Argentina to pass terrorist finance legislation.

--Pursue unlicensed exchange houses and attempt to close them. Paraguay has two dozen exchange houses which are licensed; the vast majority operate here illegally. Nor is it clear just how many of them have registered (as required by law) with U.S. federal or state authorities, even as they conduct international USD-based financial transactions.

COMMENT

¶12. (C) Many conference participants commented that this conference was their first opportunity to discuss TBA issues and cooperation with other USG agencies in the region. Given the scale and complexity of illegal activity in the TBA, the USG should continue to fund and encourage inter-agency cooperation in order to achieve concrete results. END COMMENT.

CASON